

The Economic Club of New York

The Honorable Walter L. Gordon

Minister of Finance, Canada

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We have listened with rapt attention to the Governor of Texas, that great empire to the south, which has produced so many famous cattlemen, oilmen and other independent characters including such illustrious public servants as Governor Connally and the President of the United States.

In following the distinguished Governor, it is my privilege to tell you something of another empire-to-the-north. We too have our cattlemen in Canada and our oilmen – even if the majority of the latter, judging from their accents, seems to hail from Texas or New York. We also have our home-grown independent characters who can hold their own with anyone. In addition we have a rich country which, in terms of raw geography, is slightly larger than the whole of the United States, including Texas. Our characters are not, of course, eligible for high political office in your country. But as a nation we are proud of the fact that we do contribute not only to the prosperity of the United States, but also to the joint defense of North America.

Canada is your biggest customer and your largest source of imports. We take nearly 20 percent of your total exports of goods and services and you purchase from us almost a fifth of your requirements for industrial raw materials and manufactured goods. This is one measure of the considerable interest the U.S. has in Canada. To us our trade is more vital. You take nearly 60 percent of our total exports and nearly 70 percent of all our imports come from your country.

Americans have invested over \$18 billion in Canada, about 30 percent of all your investments

outside the United States. Some \$12 billion of this total is represented by the book value of direct investments in Canadian companies that are subsidiaries or branches of U.S. corporations. The real value of these direct investments is probably much higher. And because in most cases the profits are being plowed back and not withdrawn, the figure is increasing all the time.

Prior to the proposal of the interest equalization tax in July, 1963, Canadians had for many years been accustomed to look to the New York market as a major source for borrowed funds. Because the present uncertainty is a potential threat to our ability to finance our balance of payments, we hope sincerely that your Senate, despite its concern with other important matters, will soon find time to deal with this legislation.

The facts I have mentioned should be enough to demonstrate the extent to which the trade, business, financial and economic affairs of our two countries are closely intertwined. Our levels of production, employment and prices depend very largely upon yours. To an important extent you are dependent upon us a close and safe source of raw materials, as a not insignificant market for your manufactured products, and as a place where profitable investments have been and can continue to be made.

Canadians and Americans have become accustomed to travel freely and to be accepted in each other's country – a shining example of how good neighbors should live in harmony in this turbulent and troubled world. Perhaps of even more importance than our economic

interdependence and our friendly personal relationships is the fact that our two countries are firm partners, not only in the defense of North America, but in the grand alliance that is the cornerstone of freedom in the western world. Canadians welcome the leadership the United States has given to the whole free world. And I say without any reservation the United States has no truer friend or more certain ally anywhere than Canada. We must see that things remain this way.

Naturally we shall have our differences. This could not be otherwise considering the extent of our financial and trading relationships, the interdependence of our economies and the fact that we Canadians are determined to promote our own interests and to retain our national independence. These feelings of Canadian nationalism are sometimes decried by businessmen and others as being a deterrent to economic progress. I beg to disagree. No country can survive for long if its citizens are not proud of their national identity and are not prepared to pay some price for its preservation. Perhaps in theory this may be obsolete in the kind of world in which we live. But obsolete or not, it applies and is accepted in most countries of the world, including such very different ones as Britain, France, Germany, Russia, India, Japan, and yes, certainly in Texas and the United States. Why people should think Canadians should be different in this matter from the nationals of other countries is beyond me. The fact is we are not.

In the last two years Canada has been pulling out of a period of economic stagnation that lasted from 1957 until late in 1961. The rate of economic growth is now more satisfactory; a greater

number of people are employed; and unemployment which averaged 7.2 percent in 1961 is now, on a seasonally adjusted basis, down to 4.7 percent of the working force.

The deficit on current account in our balance of payments, which is one of our major economic problems, has been reduced from \$1500 million in 1959, to \$521 million last year. While we welcome this improvement, we must bear in mind – and ask you to recognize – that this deficit is the equivalent in your terms (using a factor of fifteen to allow for the difference in scale of our gross national products), of a current account deficit of almost \$8 billion in a single year. You will appreciate, therefore, that we are not in a position to be complacent. If we are to resolve our economic problems for the future, we shall have to take steps to bring the current account in our balance of payments more nearly into balance.

I should point out that Canada, far from being a drain upon U.S. exchange reserves, has for many years made a substantial contribution to them. Our aggregate current account deficit with the United States amounted to nearly U.S. \$14 billion in the ten years ending in 1962. (In U.S. terms this is the equivalent of over \$200 billion). Capital inflows from the United States during this period were U.S. \$8.5 billion. The difference of over U.S. \$5 billion was covered by our current account surplus with the rest of the world, capital obtained from the rest of the world, and by Canadian gold production. When everything is taken into account, this means that we have assisted the United States in her balance of payments problem to the tune of over \$5 billion in the last decade.

Last year our current account surplus with countries other than the United States increased considerably due to improvement in many of our exports, including large sales of grain to Russia. We made no progress, however, in reducing our current account deficit with the United States; in fact, at Can. \$1,323 million, it was higher in 1963 than in the year before. This is a matter of serious concern to us.

We can bring our current account deficit into proper balance – as we must do – only by increasing our exports of goods and services or by reducing imports. There is no other way. And while it is not our policy to approach trade or payments problems on a bilateral basis, we face the fact that about two-thirds of all our international transactions are with the United States. This means in effect that if we are to resolve our problem – and believe me it is a deep and difficult one – we shall have to reduce our imports from or increase our exports to your country.

We do not want or intend to introduce new barriers to trade by imposing restrictions against imported goods. Of the two alternatives open to us, we would greatly prefer to increase our exports. But if we are to do this, we shall have to export to you some manufactured goods as well as industrial materials. Your manufacturers may not like this, but there is no alternative for us except of course to reduce imports which your manufacturers might like even less.

Not let me say something of another set of problems – real problems – which confront us in Canada because of the huge volume of foreign investment there has been in business in Canada.

Investment from abroad has made a tremendous contribution to the development of our country. We recognize this without hesitation or equivocation. All Canadians are better off because such investment has taken place. This investment has brought to us not only capital but also the benefit of technical, entrepreneurial and managerial skills. It has made available the fruits of research carried out elsewhere. It has brought with it access to markets for Canadian products. We do not underestimate these benefits.

But Canadians are worried about the consequences of all this foreign investment upon the control of Canadian industry. About 60 percent of all Canadian manufacturing industry is now controlled abroad. The proportion is about the same in the mining industry. The corresponding percentage in the petroleum industry is even higher. Canadian own a smaller proportion of the industry of their country than do the nationals of any other industrialized nation in the world.

Rightly or wrongly, many of us feel the rising trend in the absentee ownership of our key industries poses a threat to our economic independence. You may think these fears exaggerated. But the fact is, they exist.

We started our national existence as colonies of Britain just as you did. You secured your freedom and independence through revolution. With us the route was evolution and it took us longer. But we have achieved political freedom and independence. We have fought to defend it in two great wars; subsequently we have contributed to the collective defense of freedom. Now

what we fear is that inadvertently we may lose our economic independence.

We know that this is the last thing the government of the United States would want – or what individual Americans would want. Nevertheless, we are concerned about how – and whether – we can remain independent and masters of our own destiny when so much of our industry is controlled outside our country.

We are worried about the effect on Canada's economic growth and diversified development of having so much of our industry subject to the decisions of persons and firms not residing in Canada and whose principal interests, understandably, are not confined to considerations affecting the interests and welfare of Canada. The problem is simply that in the normal pursuit of profit, the non-resident owner, whether private individual or parent corporation, may reach decisions that do not take adequately into account Canadian interests and objectives.

On two occasions within the last year it has been my duty as Canadian Minister of Finance to outline in Parliament the objectives of the Canadian government respecting foreign investment in our country. With your indulgence, I should like to quote what I said about this when presenting the budget to the Canadian Parliament a month ago.

“The government believes that businesses in Canada, whoever owns them, should operate with due regard to the overall interests of Canadians and the Canadian economy. Canadian materials

should be processed to the greatest possible extent in Canada to provide employment and to sustain our international balance of payments. Export markets should be sought actively, wherever they may be found. Businesses in Canada should make a conscious effort to purchase supplies and components from Canadian sources whenever these are competitive; to use Canadian professional firms and other services; and to carry on in Canada all the industrial functions that can be performed efficiently here, including, particularly, basic industrial research and design. The fullest possible opportunities should be given to Canadian employees at all levels. Finally, we believe that a greater sense of partnership between Canadians and investors abroad will be of benefit to both. It is the government's desire to encourage this kind of partnership wherever possible." (End of quotation)

In order to promote this kind of partnership, tax incentives have been offered to companies that make 25 percent or more of their equity shares available to Canadians. Those incentives are important, but more important, perhaps, will be the desire of most people doing business in Canada to comply with the expressed objectives of the Canadian government and Parliament.

Canada will, of course, continue to desire and welcome investments from outside its borders. We may not need as much as heretofore as our own savings increase and as we succeed in bringing the current account of our balance of payments more nearly into balance. We think we should not normally be importing large amounts of capital year after year simply to balance our current international accounts. On the other hand, we will wish to have particular types and forms of

investment from outside, which should be offset in our international accounts by exports of capital in repayment of earlier obligations or in the purchase from non-residents of some of the equities they have earlier acquired. In addition, we now export and will continue to export some capital in the form of export credits and as aid in the form of loans to less developed countries.

We recognize that some of the investment to be made in Canada in the future must be in the form of equities if we are to secure all the advantages from it that we wish to receive. However, we would like to see an increasing proportion of it take the form of loans which can be paid off. Much of the large inflow of capital from Britain into the United States and Canada in the nineteenth century was in this form and was paid off as your country and ours grew and prospered. We should like to be able to look forward to repaying obligations that have been incurred in recent years and that must continue to be incurred in the future.

We Canadians are optimistic about the future of our country. Capital spending is at a high level; the economy is moving well ahead; 1964 should be a prosperous year. And our longer term prospects are excellent.

Despite some reports to the contrary, I believe that one of the justifications for optimism in Canada about our long-term future is the change that is going on in the province of Quebec. Until quite recently, many parts of Quebec have not fully shared the development going on in the rest of the country. Now there is a real ferment in French-speaking Canada. After many decades

when their attention was not primarily directed toward business and economic matters, French Canadians are now determined to play their full part in developing the great resources of their province. Radical changes are being made in their education system designed to better equip French-speaking Canadians for careers in business, engineering, science and administration.

There is an excitement, a tenseness in the air of Quebec these days, a sense of thriving to get things done. As might be expected in such circumstances, exaggerated statements are made from time to time which are given a great deal of attention in the press. Certainly there are extremists in Quebec as there are in other parts of Canada. The fact is, however, that French-speaking Canada is determined to achieve what others in North America have achieved – and to do this without delay. This is a good thing for Quebec, and in the long run it will be good for Canada. I say this because Quebec is now producing the kind of people who are needed not only to give leadership in the private and public business of that province, but also to make their full contribution to our country's national affairs.

It would be foolish to deny there are no strains in the Canadian Confederation. Strain is inevitable in any period of rapid change. But the sources of strain are not restricted to Quebec. The present tensions have been aggravated, and are being aggravated, by people in other parts of Canada with political or other motives, and this may continue for some time. But I believe that a decade from now, when our present growing pains are over, Canada will be a stronger, a more interesting and a more unified country.

When the new Canadian government took office just a year ago one of its first acts was to acknowledge Canada's commitments to be ready, if need be, to use nuclear weapons in the defense of North America and the rest of the NATO area. Recently Canada has taken a lead in sending troops to Cyprus to help keep the peace under the U.N. We have participated in all U.N. peace-keeping operations of the past decade, as well as the U.N. force in the Korean War. Our troops have been stationed in the Gaza Strip for seven and a half years. Canadians form part of the United Nations' forces in the Congo. We believe that over the years this kind of peace-keeping role will increase in importance, and Canada will be ready to make her full contribution to it.

Experience has shown that the wide range and major importance of the economic relations between the United States and Canada give rise to a continual series of problems which we are able to resolve but only by the aid of patience, understanding and negotiation. There are many recent examples. We have reached a mutually advantageous agreement for the cooperative development of the Columbia River, which the government has placed before our Parliament for approval. It will be a monumental achievement of international negotiation as well as engineering. Agreement has recently been reached on a means of resolving the very troublesome and important labour difficulties in the shipping industry on the Great Lakes. In another field we appreciate the action of President Johnson in vetoing the Lumber Marking Bill which would have seriously restricted the large trade in lumber from Canada to the United States.

There are still some problems to be resolved in our economic relations. There is the necessity, from our point of view, of a better balance in our total current account transactions with your country. There are the uncertainties created by the proposed interest equalization tax to which I have referred. There will be other difficulties from time to time, as there must be in all close and intimate relationships. Ask your wives if they do not agree with me on this. But if our representatives are prepared to talk over these difficulties frankly as they have done in the past year, and with a willingness to understand each other's problems, I have no doubt we shall be able to deal with them satisfactorily.

We have a great future ahead of us in Canada. I invite all of you to come and examine the situation for yourselves. You will be very welcome.

End of Remarks